

MINUTES

401(K)/457 ADVISORY COMMITTEE MEETING

East Bay Municipal Utility District

MARCH 1, 2012

The regular first quarter meeting of the EBMUD 401(k)/457 Advisory Committee convened at 9:10 a.m., Thursday, March 1, 2012 in the Boardroom Annex of the Administration Building. Interim Committee Chairperson, Tamara Wickland, called the meeting to order.

PRESENT: Cynthia Adkisson, David Beyer, Garth Hall, Wanda Hendrix, Gerald Hunter, Wayne Lee, Tamara Wickland, and Curtis Woodring

ABSENT: Eric Larsen

STAFF PRESENT: Dhanyale Dunbar and Elizabeth Grasseti

FIDELITY STAFF PRESENT: Ed Chen, Andrew Fackrell, and Suzanne Rogers

PUBLIC COMMENT: None

APPROVAL OF MINUTES: Wanda Hendrix moved the Committee accept the November 30, 2011 minutes. The motion was seconded by Cynthia Adkisson and passed unanimously.

ECONOMY & FINANCIAL MARKET OVERVIEW: Ed Chen gave an overview of the market. The slowing world economy weighed heavily on riskier assets during the second half of 2011. U.S. stocks registered broad-based gains in the fourth quarter of 2011. Foreign stock returns mixed, while commodity prices dropped. High-quality bonds benefited from plunging interest rates and Federal action.

QUARTERLY INVESTMENT REPORT: Ed Chen gave the quarterly investment report. Vanguard Total Bond Market Index Fund Signal tracked the benchmark closely. PIMCO Total Return Fund Institutional ranked in the 87th percentile. In early 2011, PIMCO's portfolio manager, Bill Gross, positioned the fund against the benchmark with a shorter duration, then reversed that position in the third and fourth quarters of 2011. The fund now ranks in the top 13th percentile year-to-date. Dodge & Cox Stock Fund was heavily weighted in financials in 2008, which resulted in the fund's poor performance in 2009. Its 3-year rankings have dramatically improved since 2008. Dodge & Cox performed well in 2009 – 2010, underperformed in 2011, but is in the top 14th percentile year-to-date. Mutual Beacon Fund's performance was adversely affected by the weight of its international investments. The fund now ranks in the top 41st percentile year-to-date. The Committee agreed to keep Mutual Beacon Fund Class Z on watch.

Vanguard Institutional Index Fund performed well in 2011 ranking in the top 17th percentile. Fidelity Blue Chip outperformed its benchmark. The fund ranks in the top 40th percentile year-to-date. Hotchkis and Wiley Mid-Cap Value Fund Class I year-to-date ranks in the top 4th percentile for the 1-year

average, the top 2nd percentile for the 3-year average, the top 47th percentile for the 5-year average, and the top 3rd percentile for the 10-year average. Morningstar moved the Neuberger Berman Genesis Fund from the small cap category to the mid cap growth category. The fund is well ahead of its Russell 2000 benchmark in relation to its 1, 3, and 5-year performance. Heartland Value Fund has generally performed well over the years but had a challenging 2011. The fund's investment in micro cap companies resulted in more risk and volatility. Otherwise, Heartland Value has been consistent as a small cap value fund.

The Freedom Funds performed poorly against their composite benchmarks. The portfolio team has examined the underperformance with domestic investments. The use of extended asset classes hurt performance in 2011, but is expected to produce better long-term risk adjusted results.

Freedom K 2055 will be added to the EBMUD core options within the next few months. Fidelity advised the Committee that the Heartland Value Fund and American Century Investments Select Fund could be changed to funds with lower expense ratios, which would reduce costs to participants. Cynthia Adkisson moved that Heartland Value Fund and American Century Investments Select Fund Investor Class be mapped respectively to Heartland Value Fund Institutional and American Century Investments Select Fund Institutional. The motion was seconded by Wanda Hendrix and passed unanimously.

Committee Member, Garth Hall, inquired about the potential of adding an International Index Fund and TIPs. Ed Chen stated that he would bring some International Index Fund products for the Committee to review. He would also present the pros and cons of TIPs/inflation protected bond funds. Suzanne Rogers stated that Fidelity staff would research the possibility of a workshop or educational material about TIPs/inflation protected bond funds.

QUARTERLY SERVICE REPORT: Suzanne Rogers gave the 4th quarter service report. Based on data of corporate defined contribution plans consisting of nearly 20,000 plans and 11.6 million participants as of 12/31/2011:

- Average account balance is \$69,100, a decrease of 0.4% from one year prior. Account balances are impacted by new participants having lower account balances than departing participants who may roll out their assets.
- For the last 2.5 years, deferral increases outnumber decreases. This trend was interrupted in the third quarter of 2008 to the first quarter of 2009, but has since resumed. Annual Increase Program (AIP) is a big driver of this trend, representing 27.6% of all deferral increased in the prior 12 months.
- Balanced portfolios such as the Fidelity Freedom Funds® outperformed 59.7% of participants over the 10-year return period. Also, 59.3% of participants took on more risk. Of those with higher risk, 62% underperformed against their age-based Freedom Fund (36.7% / 59.3%).
- Target Date Funds have resulted in fewer participants holding high-risk portfolios. These funds have significantly increased diversification among participants. Only one-in-five participants (19%) hold 100% or 0% equity allocations.
- Changes in contribution allocation are driven by participant behavior, whereas asset allocation is heavily impacted by market movement.
- The percent of active participants with outstanding loans is 22.4%. The percent of active participants initiating a loan in the prior 12 months is 10.6%.

- While hardship withdrawals continue to increase, they represent a very small portion of active participants. The percent of active participants taking a hardship withdrawal was 2.3% in the last 12 months.

Year End 2011 EBMUD Retirement Plan Review:

- Total Plan assets increased slightly from \$228,547,886 as of 12/31/2010 to \$231,662,697 as of 12/31/2011.
- The number of participants decreased from 2,952 to 2,912.
- The average account balance has steadily increased over the years from \$66,331 in 2009, \$77,421 in 2010, and \$79,555 in 2011.
- The number of single fund holders has decreased from 507 in 2009, 493 in 2010, and 480 in 2011.
- Fidelity Managed Income Portfolio II Fund has the highest amount of assets at \$28,995,397, followed by Vanguard Institutional Index at \$24,471,191, BrokerageLink® at \$23,933,700, and PIMCO Total Return Institutional at \$21,079,490.

Fee Disclosure Update:

- New Department of Labor (DOL) service provider disclosure was extended to July 2012 and participant disclosure was extended to August 2012.
- The DOL has to approve providing information online. And then the participant must agree to receive disclosure information online.
- Due to DOL regulations, Fidelity will finalize disclosure for the ERISA plans first, then the non-ERISA plans.

Fidelity service to EBMUD:

- Annual Business Planning Meeting with staff to plan 2012 campaigns, education, presentations, appointments, etc.
- EBMUD's micro website will soon go live. An announcement will be sent to all participants.
- Fidelity is developing a special business card that staff and Fidelity representatives can give to participants. The card will contain contact information to reach Fidelity by phone or online.
- Fidelity is in the process of revamping all of its websites, which includes NetBenefits® for participants and Plan Sponsor Webstation (PSW) for staff.

ITEMS CALENDARED FOR FUTURE MEETINGS: Fidelity will bring information on the status of Heartland Value and American Century Select share class change, information on International Index Funds for Committee review, and information on TIPs/inflation protected bond funds.

ADJOURNMENT: Curtis Woodring moved the meeting be adjourned. Cynthia Adkisson seconded the motion and the meeting adjourned at 10:25 a.m.